Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Woodlands Behavioral Healthcare Network	Cass

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
September 30, 2007	March 28, 2008	March 31, 2008

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below**. (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
Rehmann Robson	517-787-6503

Street Address	City	State	Zip
675 Robinson Road	Jackson	MI	49203

Authorizing CPA Signature	Printed Name	License Number
Stephen W. Blann	Stephen W. Blann, CPA, CGFM	24801

WOODLANDS BEHAVIORIAL HEALTHCARE NETWORK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

REHMANN ROBSON

Certified Public Accountants

WOODLANDS BEHAVIORIAL HEALTHCARE NETWORK

TABLE OF CONTENTS

REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
an independent member of BAKER TILLY INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

March 28, 2008

To the Woodlands Behavioral
Healthcare Network Board
Cassopolis, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information, of the Woodlands Behavioral Healthcare Network (the "Authority"), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Woodlands Behavioral Healthcare Network's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund, and remaining fund information, of the Woodlands Behavioral Healthcare Network, as of September 30, 2007, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2008, on our consideration of Woodlands Behavioral Healthcare Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Authority has not presented Management's Discussion and Analysis (MD&A) as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the financial statements.

Rehmann Robson

675 Robinson Road · P.O. Box 449 · Jackson, MI 49204 · Phone 517.787.6503 · Fax 517.788.8111 · www.rehmann.com

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

Statement of Net Assets
September 30, 2007

	Enterprise Operating Fund	Internal Service	Total Business-type Activities
Assets			
Current assets:			
Cash and cash equivalents	$ 1,188,993	$ 654,181	$ 1,843,174
Accounts receivable	191,208	-	191,208
Accounts receivable-Medicaid	75,832	-	75,832
Prepaids	344,641	-	344,641
Total current assets	1,800,674	654,181	2,454,855
Non-current assets:			
Capital assets being depreciated, net	350,359	-	350,359
Total assets	2,151,033	654,181	2,805,214
Liabilities			
Current liabilities:			
Accounts payable	532,943	-	532,943
Accrued liabilities	73,638	-	73,638
Due to State	121,858	-	121,858
Due to PIHP	9,519	-	9,519
Unearned revenue	111,348	-	111,348
Current portion of long-term debt	172,551	-	172,551
Total current liabilities	1,021,857	-	1,021,857
Non-current liabilities:			
Long-term debt, net of current portion	23,980	-	23,980
Total liabilities	1,045,837	-	1,045,837
Net assets			
Invested in capital assets	350,359	-	350,359
Unrestricted	754,837	654,181	1,409,018
Total net assets	$ 1,105,196	$ 654,181	$ 1,759,377

The accompanying notes are an integral part of these financial statements.

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2007

	Enterprise Operating Fund	Internal Service	Total Business-type Activities
Operating revenue			
Medicaid revenue	$ 6,677,807	$ -	$ 6,677,807
State and federal grants	2,170,662	-	2,170,662
Charges for services	375,479	-	375,479
Other revenue	171,429	-	171,429
Substance abuse revenue:			
Medicaid revenue	73,314	-	73,314
State and federal grants	111,241	-	111,241
Charges for services	44,955	-	44,955
Other revenue	98,851	-	98,851
Total operating revenue	9,723,738	-	9,723,738
Operating expenses			
Mental health services:			
MI Adult population	3,405,426	-	3,405,426
DD population	4,567,367	-	4,567,367
SED population	562,640	-	562,640
Substance abuse services	531,210	-	531,210
Management and general	1,087,402	-	1,087,402
Total operating expenses	10,154,045	-	10,154,045
Operating loss	(430,307)	-	(430,307)
Non-operating revenue (expenses)			
County appropriation	195,000	-	195,000
Interest revenue	52,363	32,763	85,126
Loss on sale of capital assets	(987)	-	(987)
Total non-operating revenue	246,376	32,763	279,139
Change in net assets	(183,931)	32,763	(151,168)
Net assets, beginning of year	1,289,127	621,418	1,910,545
Net assets, end of year	$ 1,105,196	$ 654,181	$ 1,759,377

The accompanying notes are an integral part of these financial statements.

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

Statement of Cash Flows

For the Year Ended September 30, 2007

	Enterprise Operating Fund	Internal Service
Cash flows from operating activities		
Cash received from customers	$ 9,794,335	$ -
Cash payments to suppliers for goods and services	(6,917,827)	-
Cash payments to employees for services	(3,323,484)	-
Net cash used in operating activities	(446,976)	-
Cash flows from capital and related financing activities		
Purchase of capital assets	(113,507)	-
Proceeds from sale of capital assets	1,601	-
Net cash used in capital financing activities	(111,906)	
Cash flows from noncapital financing activities		
County Appropriation	195,000	
Cash flows from investing activities		
Interest received	52,363	32,763
Increase (decrease) in cash and cash equivalents	(311,519)	32,763
Cash and cash equivalents, beginning of year	1,500,512	621,418
Cash and cash equivalents, end of year	$ 1,188,993	$ 654,181

continued…

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2007

	Enterprise Operating Fund	Internal Service
Reconciliation of operating income to net cash used by operating activities		
Operating loss	$ (430,307)	$ -
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	103,789	-
Changes in assets and liabilities:		
Accounts receivable	1,142	-
Accounts receivable-Medicaid	(38,032)	-
Prepaids	(163,664)	-
Accounts payable and accrued liabilities	105,466	-
Due to State	(132,857)	-
Unearned revenue	107,487	-
Net cash used in operating activities	$ (446,976)	$ -

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cass County Community Mental Health Authority (dba Woodlands Behavioral Healthcare Network) (the "Authority" or "Woodlands"), established under Section 205 of the Michigan Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity – Woodlands is a Community Mental Health Authority serving the mental health needs of Cass County residents. The Authority is not a component unit of Cass County or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity.

Financial Statements - The basic financial statements report information on all of the activities of the Woodlands Behavioral Healthcare Network.

The operations of Woodlands are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Business-type Activities

Enterprise Fund – The enterprise fund is Woodlands' primary operating fund, and only major fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Internal Service Fund – The Retiree's Health Insurance Fund accounts for activities which provide health insurance and medical reimbursements to all qualified retirees.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Woodlands' operating fund are contract revenues from MDCH and first and third party billings. Operating revenues of the internal service funds are primarily comprised of charges to other funds for risk financing. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital Assets - Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment/Computers	3-7
Vehicles	5

Cash and Cash Equivalents – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Authority for adjustments as estimated by management.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Compensated absences – It is the Authority's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Employees are allowed to accumulate up to 200 hours of vacation time and carry the accumulated time into the future. Amounts accumulated are to be paid to the employee either when the vacation time is actually taken or upon termination of employment.

Employees are allowed to accumulate hours of sick time and carry the accumulated time into the future. Hours accumulated over 360 will be paid to the employee on January 1st of each year at the rate of their hourly pay multiplied by half of the hours accumulated over 360. Hours accumulated from 1 – 360 are to be recognized as an expense when the employee actually uses the sick time. Upon termination of employment, all accumulated sick leave benefits are lost.

Unearned Revenue -- Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to five percent of the MDCH contract amount.

Medicaid Savings are considered local funds under the contract with MDCH, and may be spent over a period of several years in accordance with a Medicaid Reinvestment Strategy. State General Funds carried over must generally be spent in the following year.

2. CASH AND CASH EQUIVALENTS

Deposits

The Authority's cash and cash equivalents are comprised entirely of deposits with financial institutions.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, $1,775,004 of the Authority's bank balance of $1,975,004 was exposed to credit risk because it was uninsured and uncollateralized.

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, being depreciated:				
Equipment	$ 320,264	$ 12,000	$ -	$ 332,264
Computers	351,741	84,714	(4,567)	431,888
Vehicles	163,138	16,793	(25,319)	154,612
Total capital assets being depreciated	835,143	113,507	(29,886)	918,764
Less accumulated depreciation for:				
Equipment	(162,410)	(18,918)	-	(181,328)
Computers	(204,856)	(68,060)	1,979	(270,937)
Vehicles	(124,648)	(16,811)	25,319	(116,140)
Total accumulated depreciation	(491,914)	(103,789)	27,298	(568,405)
Capital assets, net	$ 343,229	$ 9,718	$ (2,588)	$ 350,359

4. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 137,341	$ 344,917	$ 309,707	$ 172,551	$ 172,551
Severance payable	17,927	6,053	-	23,980	-
	$ 155,268	$ 350,970	$ 309,707	$ 196,531	$ 172,551

5. LEASES

The Authority has entered into various operating leases for the use of real and personal property. The following is a schedule of future minimum lease payments:

Year Ending September 30,	Amount
2008	$ 254,928
2009	206,328
2010	190,128
2011	165,924
Total minimum payments due	**$ 817,308**

6. DEFINED CONTRIBUTION RETIREMENT

The Authority sponsors and contributes to the Employees' Money Purchase Pension Plan, which is a single-employer defined contribution pension plan. Administration of the plan is funded by the Enterprise Fund.

The Authority contributes 6.2% of all non-union personnel's salary to the plan. Employees are required to contribute 6.2% of their salary into this plan. The contributions to the plan are made in lieu of federal social security contributions. The Authority also contributes an additional 5% to the plan above the federal social security replacement contribution. Under this plan, employees are 100% vested in their account at inception. Total contributions made by the Authority and employees for the year ended September 30, 2007, were each $350,567. Employees of the Authority not eligible to participate in this plan are covered by the federal social security system.

7. OTHER POSTEMPLOYEMENT BENEFITS

The Authority provides medical, dental and vision benefits for retirees and their beneficiaries. Participants become eligible to receive benefits at age 59-½ with five years of service. Plan provisions are established and may be amended by the Board. The Authority has established an internal service fund to account for funds set aside for future benefits. As of September 30, 2007, there was one employee eligible for this benefit, but no benefits were paid.

8. TERMINATION BENEFITS

The Authority provides a severance benefit to the CEO determined by the employment contract entered into annually between the CEO and the Authority. The severance liability as of September 30, 2007 was $23,980.

9. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2007.

* * * * * *

INTERNAL CONTROL AND COMPLIANCE

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

March 28, 2008

To the Woodlands Behavioral
Healthcare Network Board
Cassopolis, Michigan

We have audited the financial statements of the business-type activities, the major fund, and the aggregate remaining fund information of the Woodlands Behavioral Healthcare Network (the "Authority"), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Authority's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the *Authority's* ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described below to be a significant deficiencies in internal control over financial reporting.

Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition/Finding:	As is the case with many smaller and medium-sized entities, the Authority has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Authority's internal controls.
Cause:	This condition was caused by the Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
Recommendation/Comment:	The Authority should evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP.
View of Responsible Officials:	The Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Significant Audit Adjustments

Criteria:	The Authority is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.
Condition/Finding:	Certain account balances and year end adjustments were not properly calculated, resulting in the need for adjustments to the financial statements in amounts that were significant to the financial statements.
Cause:	Internal controls did not detect all adjustments necessary to properly record year-end balances. Additionally, incorrect audit adjustments were not detected during the journal entry review process.
Effect:	As a result of this condition, the Authority's internal books and records were initially misstated by amounts that were significant to the financial statements. Accordingly, audit adjustments were necessary in order to properly state accrued liabilities and amounts due to Kalamazoo CMH in amounts of approximately $7,600 and $48,000, respectively.
Recommendation/Comment:	We recommend that the Authority carefully review year-end adjustments to ensure that amounts recorded properly agree with the underlying account detail.
View of Responsible Officials:	The Authority has put in place review steps before posting of year end adjustments to ensure the proper recording of the entries.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Woodlands Behavioral Healthcare Network in a separate letter dated March 28, 2008.

The Authority’s responses to the findings identified in our audit are described above. We did not audit the Authority’s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson

March 28, 2008

To the Board of Directors of the
Woodlands Behavioral Healthcare Network
Cassopolis, Michigan

We have audited the financial statements of Woodlands Behavioral Healthcare Network (the "Authority") for the year ended September 30, 2007, and have issued our report thereon dated March 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated December 3, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

675 Robinson Road · P.O. Box 449 · Jackson, MI 49204 · Phone 517.787.6503 · Fax 517.788.8111 · www.rehmann.com

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed certain adjustments, all of which were recorded by the Authority, which in our judgment indicate matters that could have a material effect on the Authority's financial reporting process. As a result, we included a significant deficiency in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson

Woodlands Behavioral Healthcare Network

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of Woodlands Behavioral Healthcare Network as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Other Matters

Allowance for Uncollectible Accounts

Generally accepted accounting principles (GAAP) require an allowance for uncollectible accounts to be estimated for receivables not expected to be collected. As of September 30, 2007, the Authority's method used to record the allowance resulted in an inconsequential "negative" balance. However, based on our review of the detail of accounts receivable at year end, it appears unlikely that 100% will be collected. While the effect of this condition does not materially misstate the financial statements, we nevertheless recommend that the Authority reevaluate its process for estimating the allowance for uncollectible accounts in order to more reasonably assess the balance at year end.

* * * * *